

## Pensions Committee Minutes

2pm, Wednesday 20 March 2024

### Present:

Councillors Watt (Convener), Burgess, Doggart, Nicolson and Ross; John Anzani and Richard Lamont.

### Pension Board Members present:

Jim Anderson, Jill Brownell, Tony Beecher, Thomas Carr Pollock, Sharon Dalli, Tom Howorth, and Brian Robertson.

### Apologies:

Darren May (Pension Board Member), Alison Murray (Independent Professional Observer) and Alan Williamson (Pension Board Member)

## 1. Quorum

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The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

## 2. Order of Business

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The Clerk advised there was no change to the order of business.

### (a) Point of Order – Clarification on advice provided regarding standing order 13.2 and the Local Government Pension Scheme Regulation 2015

In response to a point of order raised by Jim Anderson in relation to a request made at meeting of 5 December 2023 at which the Head of Governance Democracy and Resilience was to be invited to provide clarification regarding advice provided regarding Standing order 13.2 and the Local Government Pension Scheme Regulations 2015, it was highlighted that no clarification had been received. The Convener confirmed that she would discuss the matter with the Head of Democracy, Governance and Resilience and provide an update.

### Decision

- 1) To note that the Convener of the Pensions Committee would discuss the matter with the Head of Democracy, Governance and Resilience and provide an update; and
- 2) To note the point of order raised by Jim Anderson.

### **3. Declaration of Interests**

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#### **(a) Declarations of Interest**

John Anzani made a transparency statement outlining that no part of his income was impacted by the City of Edinburgh Council being the administrative authority.

John Anzani made a transparency statement that his wife is the Vice-Chair of the Board of Enjoy Leisure, East Lothian.

Brian Robertson, Pension Board member, made a declaration noting that his Union had voted in support of the deputation.

### **4. Deputation**

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#### **(a) Time To Divest (in relation to item 6.7 2023/24 Business Plan and Budget Update)**

The deputation shared details regarding the hostilities in Gaza and Israel and spoke of three LPF investments they viewed as having links to Israel and the Israeli Defence Force, expressing their concern and asked LPF to opt to divest from those and other companies as a matter of urgency. The deputation highlighted LPF members feel a violation has taken place noting members did not consent to having money invested in firms directly supplying the Israeli Defence Force. The deputation advised they would follow up by providing evidence to support their claims that the referenced investments were directly linked with the Israeli Defence Force.

### **5. Minute of the Pensions Committee of 05 December 2023**

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#### **Decision**

- 1) To approve the minute as a correct record subject to the addition of the word 'next' in the first sentence of Decision 2 item 10 Holdings report;
- 2) To note the report outlined under Decision 2 item 10 Holdings report would be submitted to the June 2024 meeting of the Pensions Committee; and
- 3) To note that Decisions in response to point of order (a) (namely, Audit Sub-Committee Convener's Annual Update Report) and point of order (c) (namely, Clarification on advice provided regarding standing order 13.2 and the Local Government Pension Scheme Regulation 2015), both arising in December 2023, would be followed up before the June 2024 meeting of the Pensions Committee.

### **6. Revised Minutes of the Pensions Committee 27 September 2023**

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#### **Decision**

To defer the item to the meeting of the Pensions Committee in June pending further clarifications around the wording in relation to the decision making around Project Forth.

## 7. Action Tracker

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Details were provided of the actions arising from decisions taken by the Pensions Committee.

### Decision

- 1) To agree to remove the December completion date in relation to the final item on the tracker related to the Pension Board request and for that action to remain open as an ongoing item;
- 2) To agree to add outstanding actions from points of order in the meeting of December 5th 2023 and any actions raised from points of order moving forward;
- 3) To agree the action relating to the minute regarding 27 September 2023 would remain open; and
- 4) To note the remaining actions on the Action Tracker.

(Reference – Action Tracker, submitted.)

## 8. Governance Update

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At its meeting on the 05 December 2023 the Pensions Committee requested that officers provide regular updates on governance matters, including compliance with the nomination and appointments and training and attendance policies in addition to any matters arising and the agenda plan.

Officers highlighted that work is underway to appoint new members for known and anticipated vacancies in the Pension Board and Pensions Committee.

It was highlighted that, at the time of writing four Pensions Committee members and eight Pension Board members had met or exceeded the training requirements, with it being expected that the remaining Pensions Committee members would meet the requirement before the period end.

It was highlighted that work had commenced to review the Pension Regulators new General Code of Practice, 2024, to identify any potential gaps in existing policies and practices and assess Lothian Pension funds compliance against the Code and that the Audit Sub Committee and Pensions Committee would be updated in June on the output.

### Decision

- 1) To note that the Pension Board members are invited to comment on Agenda Items during Committee meetings;
- 2) To note the agenda planning document set out in Appendix 1 of the report;
- 3) To note that the Pension Board Chair, Jim Anderson, will step down from the Pension Board at the end of March 2024, having made significant contribution to Lothian Pension Fund and the Pension Board over the last 9 years;
- 4) To note the Pensions Committee's thanks and gratitude to Jim Anderson for his contribution to Lothian Pension Fund and the Pension Board;
- 5) To note the Pension Board Chair arrangements from 1 April 2024 to 31 March 2025, with employer representatives, Sharon Dalli and Darren May, sharing the Chair's appointment during that period, initially Sharon, with Darren then taking the appointment of Chair from September 2024;

- 6) To note the appointment process for the non-elected Pension Committee members;
- 7) To note the update on members training hours and the development of training; and
- 8) To note the expected introduction of the Pension Regulator's new General Code with effect from 27 March 2024.
- 9) To note that employer representatives, Sharon Dalli and Darren May will share the Pension Board Chair appointment in 2024-25, with Darren taking the appointment of Chair from September 2024.

(Reference – report by the Company Secretary, Lothian Pension Fund, submitted.)

## **9. Referrals and Recommendations from the Pensions Audit Sub-Committee of 19 March 2024**

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By way of a verbal update, the Convener of the Pensions Audit Sub Committee highlighted the salient matters considered by the Sub Committee on 19 March, which had included the proposed Internal Audit Plan for 2024/25 and an update on the status of Internal Audit activity and management actions. It had also received an overview of the planned works to support the statutory audit of the 2023/24 financial year by Lothian Pension Funds External Auditor and had taken the opportunity to thank Nick Bennett for his work as audit signatory, noting a change in signatory for 2024/25. Views had been expressed regarding the approach to Pensions Committee training and a possible event by Hymans Robertson regarding climate risk scenarios encouraged. Further updates and recommendations would be made at the relevant agenda items.

### **Decision**

- 1) To note the update provided by the Convener of the Pensions Audit Sub Committee; and
- 2) To note the updates provided by the Convener of the Audit Sub-Committee at relevant agenda items.

## **10. Funding and Strategy Statement Update**

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The report provided an overview of the review of the Lothian Pension Fund 's Funding Strategy Statement which is required Local Government Pension Scheme (Scotland) regulations. The review was undertaken as part of the actuarial valuation process to ensure that it remains appropriate. It was highlighted that actuarial valuation results, consultation feedback from fund employers, guidance from Hymans Robertson and regulatory amendments had been considered as part of the revision process.

### **Decision**

- 3) To note the summary of responses received as part of the consultation process; and
- 4) To approve the revised Funding Strategy Statement.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

## 11. Actuarial Valuation for Lothian Pension Fund

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An overview of the actuarial valuation of Lothian Pension Fund based on data as at 31 March 2023 was provided, with reference being made to the financial health of the fund, the employer contribution rates, and communication and engagement with employers. It was highlighted that the actuarial valuation must be carried out every three years with the last actuarial valuation taking place at 31 March 2020.

### Decision

- 1) To note the results of the 2023 Actuarial Valuation of Lothian Pension Fund;
- 2) To note the publication of the report by the Financial Markets Law Committee on 'Pension Fund Trustees and Fiduciary Duties - Decision-making in the context of Sustainability and the subject of Climate Change' (Feb 2024) which emphasises the importance of considering climate change as part of Pension fund trustees' fiduciary duties;
- 3) To note that the plausible 'Climate catastrophe' scenario set out in Appendix 3 (section 1.4) of this report would very significantly impact the funding level of the Lothian Pension Fund within the next 20 years;
- 4) To note from Appendix 3, the rapidly evolving development of 'narrative-based' climate modelling as a response to criticisms of current climate risk modelling by pension funds and also evidenced by the September 2023 joint report by the University Superannuation Scheme and the University of Exeter 'No Time to Lose - New Scenario Narratives for Action on Climate Change';
- 5) To note the acknowledgment in Appendix 3 that the output of further work on enhancing climate risk information for decision making will become available later in 2024;
- 6) To agree an update report, once enhanced climate-risk information is available later this year, on the implications for the fund's Funding and Investment Strategies, well in advance of the 2026 valuation, and including any implications for the Statement of Investment Principles and the approach to Responsible Investment;
- 7) To note that Lothian Pension Fund officers are to circulate links to the reports referenced in Decision 1 and Decision 4 to Pensions Committee and Pension Board members; and
- 8) To agree that Lothian Pension Fund officers discuss a potential training event with Hymans Robertson.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

## 12. Actuarial Valuation for Scottish Homes Pension Fund

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An overview of the actuarial valuation for the Scottish Homes Pension Fund as at 31 March 2023 was provided.

It was highlighted that the funding level at 31 March 2023 was 127% which is a 9% increase from 2020. The Actual Funding Level of 127% is greater than the Target Funding Level of 95.5% specified in the Scottish Government Guarantee and therefore no deficit contributions are required from the Scottish Government for the period 1 April 2024 to 31 March 2027. The Scottish Government is

required to pay £90,000 per annum towards the cost of administration expenses for the three years from 1 April 2024 to 31 March 2027.

#### **Decision**

- 1) To note the results of the 2023 actuarial valuation for the Scottish Homes Pension Fund;
- 2) To note that the funding level of the Scottish Homes Pension Fund at 31 March 2023 was 127%. This Actual Funding Level of 127% is greater than the Target Funding Level of 95.5%, as specified in the Scottish Government Guarantee. Therefore, no deficit contributions are required from the Scottish Government for the period from 1 April 2024 to 31 March 2027;
- 3) To note that the Scottish Government is required to pay a total of £90,000 per annum towards the cost of administration expenses of the three years from 1 April 2024 to 31 March 2027; and
- 4) To agree that Lothian Pension Fund officers circulate the number of pensions in the fund and the number deferred.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

### **13. Investment Strategy Review**

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An overview of the conclusions of the review of the investment strategy of the Lothian Pension Fund was provided and the Pensions Committee was asked to approve the long-term investment strategy including the strategic asset allocation of the fund's assets.

It was highlighted that the proposed strategic asset allocation made minor amendments to the strategic asset allocation already in place, including name changes for two policy groups and changes to the policy group weightings and permitted ranges, including a 5% reduction in equities, a 5% increase in sovereigns and a 2% increase in cash offset by a 2% reduction in credit. It was acknowledged that the change in policy group weightings were in line with views expressed by the Pensions Committee during consideration of the actuarial valuation results, and in alignment with the proposals shared at a recent Pensions Committee and Pension Board training event.

It was also highlighted that the strategic asset allocation review had been undertaken in cooperation with Falkirk and Fife Pension Funds, taking advice from the Joint Investment Forum (JIF) and Hymans Robertson. The JIF's independent advisors had noted that decisions on strategy should be taken with a long-term perspective, and that changes to the strategic asset allocation involve trade-offs between different risks.

The aims of the proposed strategic asset allocation were highlighted namely, to balance the Pensions Committee's assumed aim for affordable contributions and contribution stability against the need to generate positive real returns from invested assets to pay pensions over a long-time horizon.

#### **Decision**

- 1) To agree to approve the amendments to the investment strategy as outlined in paragraphs 4.7 to 4.8 and 4.25; and
- 2) To agree to approve updates to the Funds Statement of Investment Principles to reflect the agreed changes to strategy.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

#### **14. 2023/24 Business Plan and Budget Update**

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An update on the progress against the 2023-24 Business Plan was provided, with specific updates related to performance indicators and membership and cashflow monitoring. It was highlighted that Lothian Pension Fund had been reaccredited by the Pensions Administration Standards Association, with no recommendations for improvement identified. Further to discussions, it was acknowledged that the Pensions Committee would be updated on progress of the AVC Review later in the year.

##### **Decision**

To note the progress of Lothian Pension Fund against the 2023-24 Business Plan, together with the specific updates on:

- a) Performance Indicators; and
- b) Membership and Cashflow monitoring.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

#### **15. 2024-5 Strategy & Business Plan Inc. Functional Plan and Budget**

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An overview of the Strategy and Business Plan, which sets out the proposed medium-term strategy for Lothian Pension Fund and the business priorities for the calendar years of 2024 and 2025 was provided. The report also set the budget and performance targets for the financial year 2024-25.

The indicative budget for 2025-26 shows the anticipated full year costs of changes proposed in 2024-25 which is primarily recruitment, pay reviews and office costs.

A summary of the four strategic goals was provided in addition to the key strategic priorities for Lothian Pension Fund within those four goals.

##### **Decision**

- 1) To agree to approve the Strategy and Business Plan for 2024-25;
- 2) To agree to approve the respective budgets, as detailed in the Financial Projections section of appendix 1, for:
  - a) LPF Group Business as usual 2024-25; net expenditure of £15,790l (2023/4: £15,267k);
  - b) Strategic project costs relating to the office relocation of £125k (2023/4: £1,193l relating to office relocation and Project Forth); and
- 3) To note the indicative budget for 2025-26, net expenditure of £16,711k.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)

#### **16. Lothian Pension Fund – Proposed Internal Audit Plan for 2024/25**

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The proposed Lothian Pension Fund Internal Audit plan for the period 1 April 2024 to 31 March 2025 was presented to the Pensions Committee for review and approval. It was acknowledged that the audit universe covered the Lothian Pension Fund group structure and would, accordingly, provide assurance for the LPFI and LPFE boards where appropriate. It was highlighted that the plan would

also include ongoing Internal Audit follow up on implementation of management actions arising from previous internal audit reports. Further to this, following discussion with officers, a forward-looking approach to assurance which provides an indicative internal audit plan over a three-year period had been considered.

#### **Decision**

- 1) To approve the proposed Lothian Pension Fund 2024/25 Internal Audit plan; and
- 2) To note the approach to developing a forward-looking approach to assurance by considering indicative audits over a three-year period, which will be reviewed and approved annually.

(Reference – report by the Head of Internal Audit, City of Edinburgh Council, submitted)

### **17. External Audit Annual Plan 2023/24 by Azets**

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An overview of the planned programme of work to be undertaken by Azets, the external auditor to Lothian Pension Fund and Scottish Homes Pension Fund, to support the statutory audit of the 2023/24 financial year was provided. As noted previously, the Pensions Committee were also advised that the audit signatory for the funds would change from Nick Bennett to Chris Brown.

#### **Decision**

- 1) To note the planned programme of work to support the statutory audit 2023/24 as shown at appendix 1 – “Lothian Pension Fund External Audit Annual Plan 2023/24” by Azets;
- 2) To note that progress against the Lothian Pension Fund External Audit Annual Plan 2023-24 will be reported to future meetings of the Pensions Audit Sub Committee and the Pensions Committee; and
- 3) To note the Pensions Committees thanks to Nick Bennett for his work as external auditor.

(Reference – report by the Chief Finance Officer, Lothian Pension Fund, submitted)

### **18. Cost Benchmarking**

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An overview of the CEM investment benchmarking analysis for the year to 31 March 2023 which showed that Lothian Pension Fund’s investment costs are significantly lower than its benchmark was provided. Over the longer-term Lothian Pension Fund has delivered investment returns above the LGPS peer group median with a lower level of risk and at a lower cost. The analysis showed that Lothian Pension Fund provides a high level of above benchmark service at a below benchmark cost.

#### **Decision**

- 1) To note the report; and
- 2) To note that the CEM Investment Benchmarking Analysis for the year to 31 March 2023 and the CEM Pension Administration benchmarking report 2023 have been provided on a confidential basis to the Conveners of the Pensions Committee, the Pensions Audit Sub Committee and the Independent Professional Observer.

(Reference – report by the Chief Executive Officer, Lothian Pension Fund, submitted)



## **19. Risk and Compliance Update**

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The report provided an overview of the monitoring and assurance undertaken in LPF since previously reported to Pensions Committee in December 2023 noting any material observations and exceptions. A summary of the work to enhance current risk management arrangements was also provided.

### **Decision**

To note the LPF group's Risk Register and Quarterly Update.

(Reference – report by the Chief Risk Officer, Lothian Pension Fund, submitted)

## **20. Briefing on issues raised by the Palestinian deputation – Motion by Councillor Burgess**

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The following motion by Councillor Burgess was submitted in terms of Standing Order 11;

'This Committee:

Agrees that the briefing requested on 5 December concerning Lothian Pension Fund holdings in companies with involvement in Israel/Gaza, and circulated to committee members on 13 February, is made public.'

### **Decision**

To approve the motion by Councillor Burgess as adjusted:

- 1) To agree that the briefing requested on 5 December concerning Lothian Pension Fund holdings in companies with involvement in Israel/Gaza, and circulated to committee members on 13 February, is brought as a report to the next committee meeting;
- 2) To agree that investments in companies identified in the briefing note are considered under Lothian Pension Fund's Statement of Responsible Investment Principles and a report provided including on engagement with these companies; and
- 3) To note that the report would be prepared on the basis that it would be made public.

## **21. Employers Participating in Lothian Pension Fund**

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The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 of Schedule 7(A) of the Act.

### **Decision**

Detailed in the confidential schedule, signed by the Convener with reference to this minute.

## **22. Additional Item - B Agenda Minute**

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The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 of Schedule 7(A) of the Act.

**Decision**

Detailed in the confidential schedule, signed by the Convener with reference to this minute.

**23. Additional Item - Verbal Update on the legal review into the Pensions Committee's decision into the Decision-making process around Project Forth**

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The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, was requested to exclude the public from the meeting for the item of business on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 6 of Schedule 7(A) of the Act.

**Decision**

Detailed in the confidential schedule, signed by the Convener with reference to this minute.